

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58141

CITY OF SPRAGUE

Lincoln County, Washington

January 1, 1994 Through December 31, 1995

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CITY OF SPRAGUE
Lincoln County, Washington
January 1, 1994 Through December 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Mayor
City of Sprague
Sprague, Washington

We have audited the financial statements, as listed in the table of contents, of the City of Sprague, Lincoln County, Washington, as of and for the fiscal years ended December 31, 1995 and 1994, and have issued our report thereon dated February 11, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the City of Sprague is the responsibility of the city's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the city's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the city complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the city's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the city and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

February 11, 1997

CITY OF SPRAGUE
Lincoln County, Washington
January 1, 1994 Through December 31, 1995

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Mayor
City of Sprague
Sprague, Washington

We have audited the financial statements of the City of Sprague, Lincoln County, Washington, as of and for the fiscal years ended December 31, 1995 and 1994, and have issued our report thereon dated February 11, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the city is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the city, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A material weakness is a reportable condition in which the

design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

February 11, 1997

CITY OF SPRAGUE
Lincoln County, Washington
January 1, 1994 Through December 31, 1995

Schedule Of Findings

1. The City Should Comply With The Laws Governing Expenditures Of The Street Fund

We noted that a transfer was made from the Street Fund to the Sewer Construction Fund for \$12,000 to provide funding for cost overruns on the sewer construction project. The source of the funds transferred was a state Transportation Improvement Board (TIB) grant.

The transfer was processed because the engineering firm had allowed the sewer construction costs to overrun the available grants and loans by approximately \$12,000. The same firm had also been retained to supervise a street improvement project. In order to compensate for the overruns in the sewer project, the engineer agreed to forgo \$12,000 of engineering services charges for the street project. The city submitted a claim to the Washington Department of Transportation for \$12,000 of engineering services even though the \$12,000 in street engineering services were not performed.

In a separate transaction, the city also inappropriately transferred \$3,000 from the Arterial Street Fund to the Sewer Fund to purchase a vehicle. There were no provisions to repay to the Arterial Street Fund for this amount.

RCW 47.24.040 states in part:

All funds accruing to the credit of cities and towns . . . shall be placed in a fund to be designated as "city street fund" and disbursed by the legislative authority, **as agents of the state**, (Emphasis ours) for salaries and wages, material supplies . . . engineering or any other proper highway or street purpose in connection with construction, alteration or repair, improvement or maintenance of any city street . . . Such expenditure may be made independently or in conjunction with federal, state or any county funds.

RCW 47.08.100 states in part:

Illegal use of county or city road funds)procedure to correct. The department is authorized . . . to investigate expenditures from the county road or city street fund; and if it determines that unauthorized, illegal or wrongful expenditures have been made from the fund, it is authorized to proceed as follows . . . and if the city street fund is involved it shall notify the city council . . . and the mayor and the city treasurer of the city or town of its determination . . . and it may notify the officials that if the wrong is not stopped, remedied, adjusted or restitution is made to its satisfaction within a specified period fixed by it, it will direct withholding further payments . . . from the motor vehicle fund.

RCW 47.08.110 states in part:

It shall be unlawful and a misdemeanor . . . to divert or use, authorize, permit or participate in the diversion or use any moneys . . . in the street fund for any other purpose or any other manner than authorized by law.

City officials were not aware that it was inappropriate to divert Street Fund moneys to pay for other city projects.

We recommend that city officials comply with the state statute for the use of Street Fund moneys.

Auditee's Response

The city will comply with state statutes regarding the use of street fund monies. As pertains to the \$3,000 transferred from the Arterial Street Fund to the Sewer Fund to purchase a vehicle, the money was transferred from the Arterial Street Fund on 06/30/95 and transferred back from the Sewer Fund to the Arterial Street Fund on 08/31/95. The city will reimburse the Arterial Street Fund for interest on this loan.

2. The City Should Comply With The Requirement To Indicate Governing Body Approval For Payment Of Payroll And Claims Vouchers

Our review indicated that the city council did not approve the payment of all claims and payroll warrants in a regularly scheduled public meeting. There was no indication in the body of the minutes that expenditures in the amount of \$3,213,977 for sewer construction progress payments were approved.

The approval of the warrants gives the authority to disburse the funds and being recorded in the minutes gives evidence that the council is reviewing and approving the claims and payroll disbursement.

The council members did not know that, even though they had authorized a city officer to issue the warrants, it did not relieve the requirement that the legislative body must review and approve the claims paid at its next regularly scheduled public meeting.

The *Budgeting, Accounting and Reporting System* (BARS) manual, 1.3.3.25 states:

To indicate governing body approval for payment of claim vouchers and payroll, the following should be entered in the minutes:

The following voucher/warrants are approved for payment:

(Funds)				Total
Voucher (warrant numbers:	___	through	___	\$___
Payroll warrant numbers:	___	through	___	\$___

If the legislative body authorizes the procedure, cities, counties and districts may issue warrants before the legislative body approves claims. To do this the municipality must enact the policies and procedures required by RCW 42.24.180.

When the voucher and payroll approval procedures are not followed, the assets of the city may be put at risk for inappropriate spending.

We recommend that the city put procedures in place to ensure that all vouchers and payroll warrants are approved for payment by the governing body and that the minutes record this action.

Auditee's Response

The city will ensure that all vouchers and payroll warrants be approved by the mayor and council and recorded in the minutes.

3. The City Should Comply With Budget Laws And Regulations

During our review of budgets, we identified procedural weaknesses concerning the timeliness of amendments and extensions to budget appropriations. In several instances, the budget document contained different amounts than were documented in the financial statements. Additionally, the Sewer Fund budget was overspent by \$16,448 for 1995.

The cause of these errors and absence of extensions is the lack of management oversight as it relates to the budgeted appropriations against actual expenditures on an ongoing basis.

RCW 35.33.121 states in part:

The expenditures classified and itemized in the final budget shall constitute the city's or town's appropriation for the ensuing fiscal year . . . the expenditures of the city . . . or the incurring of liabilities on behalf of the city shall be limited to the total amount appropriated in each fund for the current fiscal year.

RCW 35.33.141 states in part:

. . . the clerk shall submit to the city's or town's legislative body . . . a report showing the expenditures and liabilities against each budget appropriation incurred for the whole of the current fiscal year

The effect of the procedural weaknesses is to circumvent the budgetary process which is to effectively manage the resources of the city. By failing to amend budgets in a timely manner, officials risk overexpending appropriations which is a direct violation of the above RCWs.

We recommend the city develop and implement procedures to ensure that all budget amendments and extensions be made in a timely manner.

Auditee's Response

The city will watch financial reports carefully and amend any portions of the budget as necessary. The clerk will give the council a budget report on a regular basis.

Auditor's Concluding Remarks

We would like to thank the city for their timely response to our findings. We will review these areas in our next regularly scheduled audit.

CITY OF SPRAGUE
Lincoln County, Washington
January 1, 1994 Through December 31, 1995

Independent Auditor's Report On Financial Statements And Additional Information

Mayor
City of Sprague
Sprague, Washington

We have audited the accompanying statements of Fund Resources and Uses Arising from Cash Transactions of the various funds of the City of Sprague, Lincoln County, Washington, for the fiscal years ended December 31, 1995 and 1994. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the city prepares its financial statements on the cash basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System (BARS)* manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the recognized revenues and expenditures of the funds of the City of Sprague for the fiscal years ended December 31, 1995 and 1994, on the cash basis of accounting described in Note 1.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Long-Term Debt and Schedules of State Financial Assistance are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 11, 1997, on our consideration of the city's internal control structure and a report dated February 11, 1997, on its compliance with laws and regulations.

Brian Sonntag, CGFM
State Auditor

February 11, 1997

CITY OF SPRAGUE
Lincoln County, Washington
January 1, 1994 Through December 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Mayor
City of Sprague
Sprague, Washington

We have audited the financial statements of the City of Sprague, Lincoln County, Washington, as of and for the fiscal years ended December 31, 1995 and 1994, and have issued our report thereon dated February 11, 1997. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the City of Sprague taken as a whole. The accompanying Schedules of Federal Financial Assistance are presented for purposes of additional analysis and are not a required part of the financial statements. The information in the schedules has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag, CGFM
State Auditor

February 11, 1997

CITY OF SPRAGUE
Lincoln County, Washington
January 1, 1994 Through December 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Mayor
City of Sprague
Sprague, Washington

We have audited the financial statements of the City of Sprague, Lincoln County, Washington, as of and for the fiscal years ended December 31, 1995 and 1994, and have issued our report thereon dated February 11, 1997.

We have applied procedures to test the city's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedules of Federal Financial Assistance, for the fiscal years ended December 31, 1995 and 1994:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property acquisition
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Federal financial reports
- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the city's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the city had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

February 11, 1997

CITY OF SPRAGUE
Lincoln County, Washington
January 1, 1994 Through December 31, 1995

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs

Mayor
City of Sprague
Sprague, Washington

We have audited the financial statements of the City of Sprague, Lincoln County, Washington, as of and for the fiscal year ended December 31, 1995 and 1994, and have issued our report thereon dated February 11, 1997.

We also have audited the city's compliance with the requirements applicable to its major federal financial assistance program, which is identified in the accompanying Schedules of Federal Financial Assistance, for the fiscal year ended December 31, 1994. Those requirements include:

- types of services allowed or unallowed
- eligibility

The management of the city is responsible for the city's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the city's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the City of Sprague complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance program for the fiscal year ended December 31, 1994.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

February 11, 1997

CITY OF SPRAGUE
Lincoln County, Washington
January 1, 1994 Through December 31, 1995

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions

Mayor
City of Sprague
Sprague, Washington

We have audited the financial statements of the City of Sprague, Lincoln County, Washington, as of and for the fiscal years ended December 31, 1995 and 1994, and have issued our report thereon dated February 11, 1997.

In connection with our audit of the financial statements of the city and with our consideration of the city's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to its nonmajor federal financial assistance programs for the fiscal years ended December 31, 1995 and 1994. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures and eligibility of the individuals or groups to whom the city provides federal financial assistance that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the city's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the City of Sprague had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

February 11, 1997

CITY OF SPRAGUE
Lincoln County, Washington
January 1, 1994 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Mayor
City of Sprague
Sprague, Washington

We have audited the financial statements of the City of Sprague, Lincoln County, Washington, as of and for the fiscal years ended December 31, 1995 and 1994, and have issued our report thereon dated February 11, 1997. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated February 11, 1997.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the city complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the city's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated February 11, 1997.

The management of the city is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting.

- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Cash receipts
 - Cash disbursements
 - Purchasing and receiving
 - Payroll
 - General ledger
- **General Requirements**
 - Political activity
 - Davis-Bacon Act
 - Civil rights
 - Cash management
 - Relocation assistance and real property acquisition
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements
- **Specific Requirements**
 - Types of services
 - Eligibility

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Receivables
 - Accounts payable
 - Inventory control
 - Property, plant, and equipment
- **General Requirements**
 - Federal financial reports
 - Subrecipient monitoring
- **Specific Requirements**
 - Matching, level of effort, earmarking
 - Reporting
 - Special requirements

- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

During the fiscal year ended December 31, 1994, the city expended 92 percent of its total federal financial assistance under one major federal financial assistance program.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the city's major federal financial assistance program, which is identified in the accompanying Schedules of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

February 11, 1997